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## **China - Peoples Republic of**

## **Cotton and Products Update**

## **China's Cotton Imports Remain Low in MY16/17**

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**Report Highlights:**

Post's forecast for China's cotton production is lowered to 4.6 million metric tons (MMT) in MY16/17, based on decline in acreage despite a forecast yield gain in Xinjiang. This production forecast is slightly higher than the USDA July official data of 4.57 MMT and lower than the MY15/16 estimate of 4.83 MMT. MY16/17 cotton use is forecast up to 7.65 MMT mainly due to forecast decline in yarn imports. As China will continue to sell its high state cotton reserves to satisfy the domestic textile sector demand, China is unlikely to add additional import quotas. Correspondingly, forecast for MY16/17 cotton imports remain low at 980,000 tons.

## **Executive Summary:**

Post's forecast for China's cotton production is lowered to 4.6 million metric tons (MMT) in MY16/17, based on decline in acreage despite a forecast yield gain in Xinjiang. This production forecast is slightly higher than the USDA July official data of 4.57 MMT and lower than the MY15/16 estimate of 4.83 MMT. MY16/17 cotton use is forecast up to 7.65 MMT mainly due to forecast decline in yarn imports.

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## **Forecast MY16/17 cotton production falls to 4.6 MMT**

Post forecast MY16/17 cotton production is lowered to 4.6 MMT. This is based on a forecast smaller acreage despite a forecast yield gain in Xinjiang. This production forecast is slightly higher than the USDA July official data of 4.57 MMT and lower than the MY15/16 estimate of 4.83 MMT.

During the 2016 China Cotton Market Forum held in mid-August in Xinjiang, the China Cotton Association (CCA) forecast MY16/17 cotton production at 4.61 MMT (down 4.4 percent over the previous year). This lower forecast reflects a smaller planted area, down 10.1 percent from last year, despite an expected higher yield in Xinjiang due to better crop growth. CCA's survey showed MY16/17 cotton planted area declined in all three cotton-producing regions with Xinjiang down 6.3 percent, the Yellow River region down 16.1 percent and the Yangtze River region down 15.1 percent, respectively. Based on a forecast 7.9 percent growth in yield, CCA forecast Xinjiang production is 3.61 MMT, 1 percent higher than the previous year. The production for the Yangtze River region is 460,000 tons and the Yellow River region is 463,000 tons (while production for all others is likely at 77,000 tons).

However, a leading Xinjiang industry leader forecast a higher production for Xinjiang at 4 MMT based on the current good growth of the crop and the assumption that good weather conditions will remain in the coming month. MY16/17 production by other major industry sources ranges from 4.47 MMT to 4.8 MMT. Nonetheless, the forecast production varies by different sources with the difference for Xinjiang at about 200,000 tons and 150,000 tons for the none-Xinjiang cotton producing regions.

Xinjiang Provincial Development and Reform Commission (XDRC) indicated that in MY16/17 cotton planting has undergone restructuring, characterized by a downward adjustment in acreage and increased focus on yield and quality. XDRC plans to maintain cotton acreage at 30 million Mu (2 million hectares) in the coming years. The practice of inter cropping cotton with other crops (such as fruit trees) declined in southern Xinjiang in response to the government's targeted cotton subsidy policy and a call for higher efficiency and conservation of water resources.

According to XDRC, MY16/17 is the final year of the government's three-year trial implementation of the "Target Price-based Subsidy Policy." In an effort to reduce administrative costs and increase farmer confidence in cotton farming, the subsidy to farmers has been paid in a timelier manner and done in two installments rather than four as it was done during the first year of implementation. The basic data collected (that is, data related to cotton planted area/distribution and ginning facilities) and the lessons learned from the implementation are expected to shape the government's formulation of cotton support policy in MY17/18 and beyond. Generally, Post expects the current subsidy policy will continue in

Xinjiang in the coming years.

The Xinjiang Production and Construction Corporation (PCC) indicated that in addition to reducing cotton planting in land with low yield and quality, several measures have been taken to boost yield and quality. These practices include: selecting the best cotton seed varieties and expanding their coverage/acreage; moderately reducing plant density to achieve high yield/quality; improving de-leaf treatment; and extending the use of plastic film (1 mm thickness or above) to reduce contamination.

Field visits to part of the North Xinjiang cotton-producing region conducted in mid-August support the above forecast. For example, in Kuitun City, farmers reportedly reduced cotton acreage in low-yield lands and substituted it with sunflower and tomato. Conversely, most of the PCC farms maintained a similar cotton planted area in MY16/17. In Shihezi region, most PCC farms maintained identical cotton planted area as in the previous year and the growth of the crop is rated as good. However, few none-PCC farmers said they switched some of their cotton area to silage corn or melon in anticipation of higher income.

Meanwhile, excessive rainfall hit part of the Yangtze River region in July which impacted the growth of cotton with less bolls and likely low yield. In Hubei, 60 percent of the cotton area was impacted and 10 percent is likely to be completely damaged. The flood caused the bolls to fall which can result in 20 percent decrease in yield. Hubei's cotton production stood at about 200,000 tons in MY15/16. Despite long wet days and lack of sunshine in the early growth period, cotton growth in the Yellow River region is rated as normal as weather conditions remain favorable in recent weeks and yield is expected to be similar to the previous year.

### **Sales of cotton reserves extended to the end of September**

On August 5, 2016, China's National Development and Reform Commission announced the sales of state cotton reserves will be extended for one more month to the end of September, 2016. The extension was granted to meet the textile sector's demand. In addition, the plan to cap total reserve sales at 2 MMT was also eliminated. An earlier measure taken in the beginning of August was to raise daily auction volume to about 30,000 tons from the 25,000 tons. This was in response to industry complaints regarding the small volumes auctioned and the increase in purchase price. Based on industry sources, as of August 1, the 40 percent of the auctioned cotton was purchased by traders while 60 percent was purchased by spinning mills. The high participation of cotton traders in the auctions drove the purchase price high and resulted in less cotton for the mills. The government's decision to extend the auction by one month is a welcomed step by industry and has had a positive impact on stabilizing cotton price. China's textile industry leader expected 2.4 MMT of cotton reserves will be sold by the end of September.

As of August 19, 2016, out of the total 2,103,200 tons offered in auctions, cumulative sales of cotton reserves reached 1,875,000 tons. The purchase rate declined to 48.1 percent during the week of August 15 and the average price declined to RMB13,656 (\$2,069)/ton from the RMB13,864 (\$2,100)/ton in the previous week. The share of purchase volume by traders in the week also declined to 37 percent. The declining purchase rate and price reflect the mills/traders taking a more cautious approach in adding stocks given the fact that the harvest of new crop is approaching and that the cotton reserve sales have

extended. The cotton price trend remains uncertain after the price increase in July.

### **MY16/17 Cotton consumption forecast to recover moderately**

Post forecast MY16/17 cotton use is 7.65 MMT, up from the 7.4 MMT in the previous year and based on a forecast slight recovery in domestic demand for cotton textile products and a decline in yarn imports.

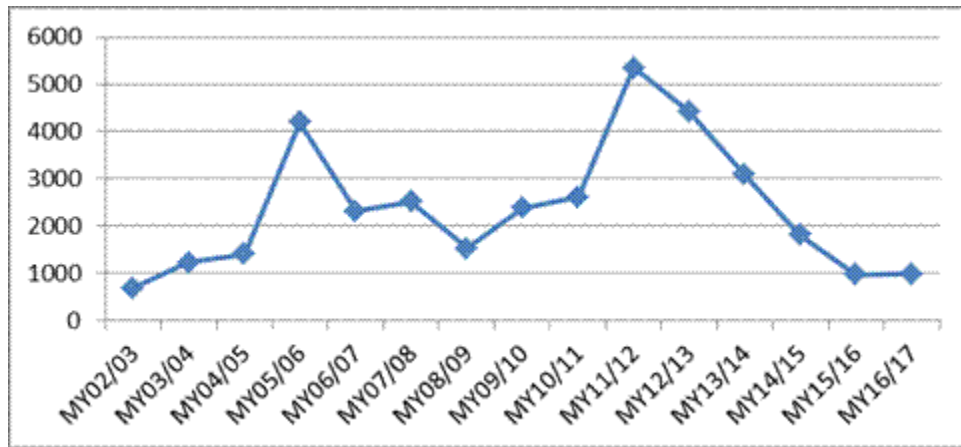
Based on preliminary data from Chinese Customs, MY15/16 yarn imports are 2.07 MMT, down 196,000 tons from the previous year. The lower yarn imports reflects a recovery in the competitiveness of China's spinning sector as a result of the government's policy to reduce the gap between domestic and global prices. Higher yarn prices in India and Pakistan further reduced yarn import profits for Chinese traders. Yarn imports during the first seven months of 2016 lowered 19.4 percent compared to the same period last year. Currently, the spot market price gap between China and the international market continues to narrow from the high levels of more than RMB1,100 (\$167)/ton during the end of July. Many industry insiders believe yarn imports will continue to fall in MY16/17 based on a more "market-oriented" domestic cotton price which will stimulate domestic spinning.

During the first seven months of 2016, China's industry statistics reported that total yarn production increased 7.4 percent from the previous year to 23.52 MMT. In the first half of 2016, total textile and apparel exports were down 2.6 percent and valued at \$125 billion. However, exports in the second quarter showed a recovery with export value only slightly lower (about 0.3 percent) compared to the same period last year. Similarly, China's Customs data for the first half of 2016 indicated that the total value of cotton textile and apparel exports were down 1 percent from last year at \$40.43 billion. Industry insiders remain cautiously optimistic regarding exports for the second half of the year. Also during the first half of 2016, domestic demand for textile and apparel continued at a steady growth with sales value up 7 percent compared to last year.

### **MY16/17 cotton imports remains low**

Post's forecast for MY16/17 cotton imports are 980,000 tons, only slightly higher than the 962,000 tons in the previous year given China continues to reduce its high state reserve stocks and limit the issuance of additional import quotas. Out-of-quota cotton imports (facing full duty) are unlikely as the gap between domestic and global cotton prices continues to narrow.

### **China's Yearly Cotton Imports (MY02/03 to MY16/17; in 1,000 tons)**



Source: Global Trade Atlas; MY16/17 FAS/Beijing Forecast

### **Xinjiang textile industry continues to expand**

In response to the government's call to development textile industry and add employment in Xinjiang, total spindles reached 11.9 million by mid-2016, up from the 11 million at the end of 2015. Yarn production was 600,000 tons in 2015 of which about 360,000 tons were cotton yarn. Forecast 2016 yarn production will reach 900,000 tons of which 450,000 tons comprise cotton yarn.

### **Tables**

## Production, Supply and Demand (PSD)

**Table 1. PSD (in 1,000 Bales and 1,000 Ha)**

Cotton China	2014/2015		2015/2016		2016/2017	
	Market Year Begin: Aug 2014		Market Year Begin: Aug 2015		Market Year Begin: Aug 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	4,325	0	3,200	0	2,900
Area Harvested	4,400	4,325	3,050	3,200	2,850	2,900
Beginning Stocks	62,707	62,707	67,920	67,920	60,295	60,338
Production	30,000	30,000	22,000	22,200	21,000	21,130
Imports	8,284	8,284	4,500	4,418	4,500	4,500
MY Imports from U.S.	0	2,696	0	880	0	1,000
Total Supply	100,991	100,991	94,420	94,538	85,795	85,968
Exports	71	71	125	200	100	200
Use	33,000	33,000	34,000	34,000	35,000	35,140
Loss	0	0	0	0	0	0
Total Dom. Cons.	33,000	33,000	34,000	34,000	35,000	35,140
Ending Stocks	67,920	67,920	60,295	60,338	50,695	50,628
Total Distribution	100,991	100,991	94,420	94,538	85,795	85,968
Stock to Use %	205	205	177	176	144	143
Yield	1,484	1,510	1,570	1,510	1,604	1,586
TS=TD	0	0	0	0	0	0

**Table 2. PSD (in 1,000 Tons and 1,000 Ha)**

Cotton China	2014/2015		2015/2016		2016/2017	
	Market Year Begin: Aug 2014		Market Year Begin: Aug 2015		Market Year Begin: Aug 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	4,325	0	3,200	0	2,900
Area Harvested	4,400	4,325	3,050	3,200	2,850	2,900
Beginning Stocks	13,653	13,653	14,788	14,788	13,128	13,137
Production	6,532	6,532	4,790	4,833	4,572	4,600
Imports	1,804	1,804	980	962	980	980
MY Imports from U.S.	0	587	0	192	0	218
Total Supply	21,988	21,988	20,557	20,583	18,680	18,717
Exports	15	15	27	44	22	44
Use	7,185	7,185	7,403	7,403	7,620	7,651
Loss	0	0	0	0	0	0
Total Dom. Cons.	7,185	7,185	7,403	7,403	7,620	7,651
Ending Stocks	14,788	14,788	13,128	13,137	11,037	11,023
Total Distribution	21,988	21,988	20,557	20,583	18,680	18,717
Stock to Use %	205	205	177	176	144	143
Yield	1,484	1,510	1,570	1,510	1,604	1,586
TS=TD	0	0	0	0	0	0

